

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name Western Upper Peninsula District Health Dep	County Houghton
Fiscal Year End 9/30/06		Opinion Date 1/19/07		Date Audit Report Submitted to State 3-28-07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

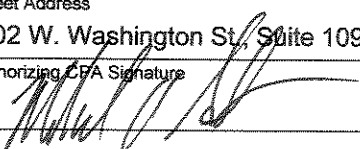
SE
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>	No Comments and Recommendations in current year		
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name) Anderson, Tackman, & Company, PLC		Telephone Number 906-225-1166		
Street Address 102 W. Washington St., Suite 109		City Marquette	State MI	Zip 49855
Authorizing CPA Signature 		Printed Name Michael Alan Greutz		License Number 1101027988

**WESTERN UPPER PENINSULA
DISTRICT HEALTH DEPARTMENT**

**COMPONENT UNIT FINANCIAL
STATEMENTS
For the Year Ended September 30, 2006**

TABLE OF CONTENTS

Independent Auditors' Report	3
Management's Discussion and Analysis.....	5
Statement of Net Assets	13
Statement of Activities.....	14
Balance Sheet	15
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balance	17
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	18
Notes to Financial Statements	19

Required Supplementary Information

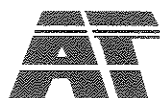
Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual.....	29
---	----

Other Supplementary Information

Schedule of Expenditures by Reporting Unit	31
Schedule of Department Expenditures	32

Compliance Supplements

Report on Compliance and Other Matters and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	36
---	----



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

INDEPENDENT AUDITORS' REPORT

Board of Health
Western Upper Peninsula District Health Department
540 Depot Street
Hancock, Michigan 49930

We have audited the accompanying financial statements of the governmental activities and major fund of the Western Upper Peninsula District Health Department, a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Western Upper Peninsula District Health Department's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Western Upper Peninsula District Health Department's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Western Upper Peninsula District Health Department as of September 30, 2006, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2007 on our consideration of the Western Upper Peninsula District Health Department's internal control over financial reporting and on our tests of its compliance with certain provision of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Health
Western Upper Peninsula District Health Department
540 Depot Street
Hancock, Michigan 49930

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 12 and 29, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Western Upper Peninsula District Health Department's basic financial statements. The schedules listed as additional information in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 19, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Western Upper Peninsula District Health Department's financial performance provides an overview of the Western Upper Peninsula District Health Department's financial activities for the year ended September 30, 2006. Please read it in conjunction with the financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- Net assets for the Western Upper Peninsula District Health Department as a whole decreased by \$57,752 as a result of this year's operations.
- The general fund reported a decrease in fund balance of \$79,720. This is \$15,453 lower than the forecasted decrease of \$95,173.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities (on pages 13 and 14) provide information about the activities of the Western Upper Peninsula District Health Department as a whole and present a longer-term view of the Western Upper Peninsula District Health Department's finances. Expenditure schedules for each Western Upper Peninsula District Health Department Program start on page 31. These statements report the Western Upper Peninsula Health Department's operations in more detail than the government-wide statements, showing expenditures for each program by main expense category.

Reporting the Health Department as a Whole

Our analysis of the Western Upper Peninsula District Health Department as a whole begins on page 6. One of the most important questions asked about the Western Upper Peninsula District Health Department's finances is "Is the Western Upper Peninsula District Health Department as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Western Upper Peninsula District Health Department as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Western Upper Peninsula District Health Department's *net assets* and changes in them. You can think of the Western Upper Peninsula District Health Department's net assets - the difference between assets and liabilities - as one way to measure the Western Upper Peninsula District Health Department's financial health, or *financial position*. Over time, *increases or decreases* in the Western Upper Peninsula District Health Department's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Western Upper Peninsula District Health Department's client base and the condition of the Western Upper Peninsula District Health Department's capital assets, to assess the *overall financial health* of the Western Upper Peninsula District Health Department.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

All of the Western Upper Peninsula District Health Department's activities are reported as governmental activities, detailed in the statement of net assets and the statement of activities. All of the Western Upper Peninsula District Health Department's basic services including general services and administration are reported here, as are discretionary programs like Superior Home Nursing and Hospice. Western Upper Peninsula Health Department activities are primarily funded by fees for services and state and local sources of funds.

Reporting on the Western Upper Peninsula District Health Department's General Fund

All Western Upper Peninsula District Health Department programs and services are reported in the General Fund. Our analysis of the Western Upper Peninsula District Health Department's general fund begins on page 26. These financial statements provide detailed information on Western Upper Peninsula District Health Department's expenditures by reporting unit.

- *Governmental funds* – All of the Western Upper Peninsula District Health Department's services are reported in a single governmental fund, which details how money flows into and out of the fund, and the balances left at year-end that is available for spending. The report uses an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the Western Upper Peninsula District Health Department's general government operations and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Western Upper Peninsula District Health Department's programs.

The Health Department as a Whole

Table I provides a summary of the Health Department's net assets as of September 30, 2006 and 2005.

Table 1		
Net Assets		
	Governmental Activities – 2006	Governmental Activities – 2005
Current and other assets	\$1,580,944	\$1,802,365
Capital assets, net	799,422	868,204
Total Assets	\$2,380,366	\$2,670,569
Current liabilities	\$514,177	\$538,029
Non-current liabilities	431,224	639,823
Total Liabilities	\$945,401	\$1,177,852
Net Assets:		
Invested in capital assets, net of related debt	\$615,269	\$547,213
Restricted	-	-
Unrestricted	819,696	945,504
Total Net Assets	\$1,434,965	\$1,492,717

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Net assets of the Western Upper Peninsula District Health Department's governmental activities stood at \$1,434,965. *Unrestricted* net assets—the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$819,696.

The results of this year's operations for the Western Upper Peninsula District Health Department as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal year 2006 and revenue and expense in fiscal year 2006 compared to revenue and expense in fiscal 2005.

Table 2
Change in Net Assets

	Governmental Activities – 2006	Governmental Activities – 2005
Revenues		
Charges for services	\$4,299,029	\$4,222,653
Projects and Grants	1,292,821	1,251,063
State/Local Public Health Operations	393,411	413,039
Cigarette Tax	31,880	29,331
Total Revenues	6,017,141	5,916,086
Program Expenses		
Salaries and Wages	3,599,229	3,377,938
Fringe Benefits	1,275,786	1,207,696
Supplies	515,022	519,489
Contracted Services	289,865	201,208
Communications	52,184	50,980
Travel and Training	292,972	288,028
Printing and Advertising	60,430	69,025
Insurance	58,460	56,221
Utilities	38,741	34,221
Repairs and Maintenance	61,472	76,088
Leases and Rentals	56,756	51,023
Miscellaneous	46,046	42,912
Capital Outlay	42,598	71,629
Depreciation	68,782	73,366
Interest Expense	16,093	27,513
Total Expenses	6,474,436	6,147,337
Excess (deficiency) before transfers	(457,295)	(231,251)
County appropriations	399,543	399,548
Increase (decrease) in net assets	(57,752)	168,297
Net assets, beginning	1,492,717	1,324,420
Net Assets, Ending	\$1,434,965	\$1,492,717

The Western Upper Peninsula District Health Department's total revenues were \$6,416,684, including local county funding shown as other financing sources. The total cost of all programs and services was 6,474,436, leaving a decrease in net assets of \$57,752. Our analysis below considers in more detail the operation of the Western Upper Peninsula District Health Department's programs (in governmental activities) during 2006.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**Governmental Activities**

To understand the operation of the Western Upper Peninsula District Health Department, its programs and services can be seen as falling into one of two broad categories: those basic to local public health departments in Michigan and special programs operated by this health department. The Western Upper Peninsula District Health Department's basic public health services are funded by state grants and local funding. Local funding consists of county appropriations, user fees and home health net revenue. The Western Upper Peninsula District Health Department's special programs include dental services, the RSVP project, senior screening, substance abuse prevention and the Superior Home Nursing and Hospice Division. These programs are largely funded by state and federal grants, and fees for service.

The Health Department experienced a decrease in net assets for the year of \$57,752.

Key reasons for the change in net assets were as follows:

Net decrease in governmental fund balance	\$(79,720)
Depreciation charged to expense	(68,782)
Change in compensated absences	(46,088)
Principal payment on debt reclassified from expense	136,838

THE HEALTH DEPARTMENT'S GOVERNMENTAL FUNDS

As the Western Upper Peninsula District Health Department completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a fund balance of \$1,184,615, a decrease of \$79,720 from the beginning of the year.

At year's end, the total fund of \$1,184,616 was composed of restricted funds totaling \$464,919 and unreserved funds of \$719,697. The unreserved funds equates to 40 days of operating capital, or 11 percent of budget. For purposes of comparison, the optimal funds position for a governmental non-profit is 75 days, or 20 percent.

The health department's funds balance consists of the accumulated operating surplus produced by Superior Home Nursing and Hospice. Its decrease is primarily the result of the health department's operating plan for 2006, which budgeted \$59,000 to be drawn from funds balance to replace the under-funding of local allocations by that amount. The additional \$20,000 decrease in funds is the outcome of the home nursing unit's negative net income in 2006.

The home health division caused immediate concern in 2006. The first quarter of 2006 experienced a 10% drop in (home health) revenue per patient, made worse by a drop in average daily census of some 20 patients. By mid-year, the Superior Home Nursing and Hospice Division booked a \$225,000 loss.

A multi-faceted response plan was implemented by the home health management team. Staffing reductions and other cost control efforts, enhanced outreach efforts and intensive staff training (related to improving Medicare reimbursement documentation) were put in place. Patient caseloads moved from a low of 181 to a daily average of 200 by July. Patient revenue inched up each month, as did staff performance, measured by overtime and productivity statistics. The division's result at year-end exceeded worst case expectations, recovering much of the year's early loss. The home health division's loss for 2006: \$114,000.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Total revenue for Superior Home Nursing and Hospice in 2006 was \$ 3,362,800 consisting of \$2,687,200 for home health operations, \$164,500 in hospice services, and \$511,100 in therapy staffing service revenue. Total caseload for the year was down by 13 percent, 78 patients. Revenue from home nursing cases, net of adjustments, was down \$190,000 from the original revenue target. This was partly offset by strong demand for therapy staffing services from local healthcare providers; revenue from contracts was up \$90,000 over the prior year. On the increased revenue, the rehab unit added almost \$81,000 in net income to the health department.

In contrast to the volatile home health market, public health program operations were more predictable. Clinical public health services, community health programs and environmental health activities all met, or slightly exceeded, targets for 2006. Grant funding from all sources was fully captured, and mid-year supplemental funding requests brought additional grant money into senior screening, pandemic preparedness, WIC, electronic recycling, and health education. The supplements received amounted to \$60,000.

Activity in immunization and environmental health programs in 2006 was noteworthy. Increased fall flu shot activity brought in more fees than the prior year, and the international travel vaccine program also grew in 2006. In environmental health, restaurant inspections and well and septic permit activity was equal to the prior year, but a higher fee schedule created more revenue. All user fees taken together showed an increase of \$65,000 over total fee income in 2005.

In personnel costs, the health department ended 2006 with salary expense below budget and contractual expenses over budget. Salaries were reduced by increased oversight of overtime and tight scheduling in Superior Home Nursing and Hospice. Contract expense exceeded budget as the health department brought in a new physical therapist, occupational therapist and speech therapist on a contractor basis.

Staffing in all areas was tightly controlled in 2006; no positions were added to any unit except the rehab team. To meet the demand for contract staffing, that unit hired three physical therapy assistants, and three therapists. Meanwhile, home nursing staffing was reduced by 3.1 FTEs. Administration continued to operate with 1.5 fewer staff than its staffing level two years ago, causing the administrative overhead ratio to fall below 14 percent.

Health department operations in 2006 were a qualified success, given the early and large losses in home health; the reduction in fund balance was only \$20,000 more than originally budgeted. Even with a negative margin in 2006, the home care division contributed \$520,000 to agency overhead costs, fulfilling its mission of providing home care to those needing it, while helping fund public health in our communities.

General Fund Budgetary Highlights

Over the course of the year the Western Upper Peninsula District Health Department revised their budget; actual charges to expenditures were \$44,918 less than the original budget. Conversely, revenues were \$29,345 less than the original budget projection.

However, a better view of operations over the course of a year is gained by comparing year-end financials with the initial operating budget of the year. Checking year-end results against the original budget, expenses exceeded projections by \$85,000 while revenues exceeded budget by \$65,000. Additionally, both grant revenue and supply expense were adjusted up by \$300,000 to account for the unbudgeted value of vaccines received from Michigan Department of Community Health.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Regarding specific deviations from the original budget due to 12 month operations, revenue for Superior Home Nursing and Hospice Division, including home nursing, hospice and rehab services, fell short by \$100,000, net of contractual allowances.

(Contractual allowances are routine adjustments to billed charges made necessary by Medicare regulations.) Fee income increased \$125,000 due to greater volume in vaccine sales and new fee rates for environmental health services. Grant revenue was also up by \$60,000 (over the first budget), as supplemental funding was won in response to public health and emergency preparedness grant requests.

Personnel expenses also showed variance from budget, with salary and fringes moving in opposite directions. Salaries were under budget by \$66,000 as staff cut backs were imposed. However, fringes exceeded budget by almost \$35,000, due to the late implementation of new health insurance plans negotiated with AFSCME. Contract costs also exceeded budget \$86,000, as two new therapists came on board under contractor status.

In other costs, utilities exceeded budget by \$9,000 for required purchase of new equipment, and rents overran budget due to the renewed and increased lease at the Gogebic Courthouse. Two other expense categories bear mention: advertising overran the first budget because ad contracts were increased in an effort to gain home care patients. And, capital outlay was up because of the implementation of laptops and software in environmental health.

Overall, health department operations matched budgeted projections fairly consistently across programs. Both revenue and expense surpassed the original budget – with revenue falling below expenses only \$20,000 more than anticipated. This variance, 3/10 of 1 percent, is considered acceptable budget variance considering the fluctuating home health market factors faced by the health department during 2006.

CAPITAL ASSET AND DEBT ADMINISTRATION**Capital Assets**

At the end of fiscal year 2006, the Western Upper Peninsula District Health Department had \$799,422 invested in a variety of capital assets including land, buildings, and other equipment. (See table 3 below)

Table 3 Capital Assets at Year-End (Net of Depreciation)		
	Governmental Activities – 2006	Governmental Activities – 2006
Land	\$90,000	\$90,000
Land improvements	3,057	5,567
Buildings	677,013	736,531
Equipment and furnishings	29,352	36,106
Totals	<u>\$799,422</u>	<u>\$868,204</u>

The Western Upper Peninsula District Health Department did not purchase or dispose of any capital assets in the current fiscal year and recorded depreciation expense of \$68,782.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**Debt**

At the end of fiscal year 2006, the Western Upper Peninsula District Health Department had \$184,153 in installment purchase agreements as depicted in Table 4 below.

Table 4 Outstanding Debt at Year-End		
	Governmental Activities – 2006	Governmental Activities – 2005
Contracts and notes payable	\$184,153	\$320,991
Totals	\$184,153	\$320,991

The Western Upper Peninsula District Health Department did not issue any new debt in the current fiscal year and recorded principal payments of \$136,838. Further details on long-term debt can be found in Note F.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The health department's management and board analyze many factors, including market projections, industry reimbursement trends, governmental funding prospects and anticipated cost increases when setting each year's budget. The challenge for 2007 is the need to support expanding personnel costs with a minimal revenue change.

The 2007 budget projects an overall 1 percent decrease in total expenditures, compared to activity in 2006. Salary costs will increase by 3.6 percent, attributable to negotiated pay increases and projected attrition costs. No new positions are planned. Fringe expense is anticipated to change from 36 percent of salaries to 37.7 percent, based on insurance premium increases. However, all other costs will be tightly controlled in 2007, and capital expenditures will drop dramatically as the Hancock building becomes fully paid.

Total revenues in 2007 are budgeted to be a mere \$60,000 more than 2006 actual revenue. We expect an increase of near \$140,000 in fee income and Medicare reimbursement, based on modest growth in home care and private fees. However, it is expected that public health and environmental health program grants will fall by \$78,000 in 2007. It is noted that the budget for public health program funding is the most realistic projection attainable, but Michigan's precarious financial condition leaves open the possibility that public health funding will fall far short of this budget as 2007 unfolds.

In 2007, local funding to the health department from the five counties which comprise the district (Houghton, Keweenaw, Ontonagon, Baraga, Gogebic) will remain unchanged, at \$399,500, filling 6 percent of the health department's budget. Because the flat county allocations fall under that needed to balance the budget, the health department projects a \$130,982 shortfall in 2007, to be funded from Superior Home Nursing and Hospice funds balance.

The reality of rising costs during a period of declining state and federal governmental funding makes the effective operation of Superior Home Nursing and Hospice, and the tradition of strong county support, necessities for the health department. In 2007, continuing emphasis will be placed on pursuing the Superior Home Nursing and Hospice mission to provide its nursing care in every corner of the five counties, and to do so in a manner that returns net income to help fund the department's public health programs.

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

CONTACTING THE HEALTH DEPARTMENT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Western Upper Peninsula District Health Department's finances and to show the Western Upper Peninsula District Health Department's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Western Upper Peninsula District Health Department, 540 Depot Street, Hancock, MI 49930.

Western Upper Peninsula District Health Department

Statement of Net Assets

September 30, 2006

ASSETS

Current

Cash and equivalents	\$ 543,836
Accounts receivable	899,372
Due from other governmental units	46,106
Prepaid expenditures	91,630

Non-Current

Capital assets (net of accumulated depreciation)	799,422
--	---------

TOTAL ASSETS 2,380,366

LIABILITIES:

Current

Accounts payable	\$ 126,060
Accrued payroll	231,456
Compensated absences	148,288
Installment purchase agreements - payable	18,372

Non-Current

Compensated absences	255,443
Installment purchase agreements - payable	165,781

TOTAL LIABILITIES 945,400

NET ASSETS:

Invested in capital assets net of related debt	615,269
Unrestricted	819,697

TOTAL NET ASSETS \$ 1,434,966

Western Upper Peninsula District Health Department

Statement of Activities

For the Year Ended September 30, 2006

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Governmental Activities				
Public Health	\$ 2,219,719	\$ 512,052	\$ 1,480,778	\$ (226,889)
Environmental Health	722,701	372,918	190,454	(159,329)
Superior Home Nursing & Hospice	3,465,757	3,362,800	-	(102,957)
Administration	66,259	51,259	15,000	-
Total Governmental Activities	<u>\$ 6,474,436</u>	<u>\$ 4,299,029</u>	<u>\$ 1,686,232</u>	<u>(489,175)</u>
			General revenues	
			County appropriations	
			Other counties	225,342
			Primary county	174,201
			Cigarette tax	31,880
			Total General Revenues	<u>431,423</u>
			Change in Net Assets	(57,752)
			Net Assets, Beginning of Year	1,492,718
			Net Assets, End of Year	<u>\$ 1,434,966</u>

See accompanying notes to the financial statements.

Western Upper Peninsula District Health Department

Balance Sheet

September 30, 2006

ASSETS

Cash and equivalents	\$ 59,407
Cash and equivalents - designated	484,429
Accounts receivable	
Home health	980,445
Special projects	76,893
Other	36,142
Due from other governmental units	46,106
Prepaid expenditures	91,630
TOTAL ASSETS	<u>\$ 1,775,052</u>

LIABILITIES AND FUND EQUITIES

Liabilities

Accounts payable	\$ 126,060
Accrued payroll	231,456
Deferred revenue	194,108
Compensated absences	38,812
Total Liabilities	<u>590,436</u>

Fund Equities

Fund Balance - Unrestricted	
Designated	464,919
Undesignated	719,697
Total Fund Equities	<u>1,184,616</u>

TOTAL LIABILITIES AND FUND EQUITIES	<u>\$ 1,775,052</u>
-------------------------------------	---------------------

See accompanying notes to the financial statements.

Western Upper Peninsula District Health Department

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

September 30, 2006

Total Fund Balances for Governmental Funds	\$	1,184,616
--	----	-----------

*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Land	90,000	
Cost of capital assets	1,621,437	
Accumulated depreciation	<u>(912,015)</u>	
		799,422

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Compensated Absences - Current	(109,476)	
Compensated Absences - Long-Term	(255,443)	
Notes payable - Current	(18,372)	
Notes payable - Long-Term	<u>(165,781)</u>	
		(549,072)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>1,434,966</u>
---------------------------------------	----	------------------

Western Upper Peninsula District Health Department

Statement of Revenues, Expenditures and Changes in Fund Balance

For the year ended September 30, 2006

	General Operating Fund
REVENUES:	
Fees and collections	\$ 4,299,029
Projects and grants	1,292,821
State local public health operations	393,411
TOTAL REVENUES	<u>5,985,261</u>
EXPENDITURES:	
Health & Welfare	6,496,404
TOTAL EXPENDITURES	<u>6,496,404</u>
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(511,143)
OTHER FINANCING SOURCES (USES):	
County Appropriations	<u>431,423</u>
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(79,720)
FUND BALANCE, Beginning of Year	1,264,336
FUND BALANCE, End of Year	<u><u>\$ 1,184,616</u></u>

See accompanying notes to financial statements.

Western Upper Peninsula District Health Department

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities

For the year ended September 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	(79,720)
---	-----------	-----------------

*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	(68,782)	
Capital outlays	<u>-</u>	(68,782)

Some expenses reported in the statement of activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(46,088)

Repayment of bond/note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

136,838

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ **(57,752)**

See accompanying notes to the financial statements.

WESTERN UPPER PENINSULA DISTRICT HEALTH DEPARTMENT

NOTES TO FINANCIAL STATEMENTS

September 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The Western Upper Peninsula District Health Department (WUPDHD) is a discretely presented component unit of the County of Houghton, Michigan. The Western Upper Peninsula District Health Department's purpose is to provide mandated public health services and other health services to the residents of Houghton, Ontonagon, Gogebic, Baraga and Keweenaw counties.

The financial statements of the Western Upper Peninsula District Health Department have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Western Upper Peninsula District Health Department are described below.

(1) REPORTING ENTITY

The Western Upper Peninsula District Health Department's financial statements present the Western Upper Peninsula District Health Department, a component unit of the County of Houghton, Michigan. In evaluating the Western Upper Peninsula District Health Department as a reporting entity, management has addressed all potential component units (traditionally separate reporting units) for which the Western Upper Peninsula District Health Department may or may not be financially accountable and, as such, be includable within the financial statements.

(2) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE FINANCIAL STATEMENTS:

The Western Upper Peninsula District Health Department's basic financial statement is government-wide (reporting the Western Upper Peninsula District Health Department as a whole). All the Western Upper Peninsula District Health Department's operations are classified as governmental activities.

In the Government-Wide Statement of Net Assets, the governmental columns are presented on a consolidated basis by column and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Western Upper Peninsula District Health Department's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Western Upper Peninsula District Health Department first utilizes restricted resources to finance qualifying activities.

The Government-Wide Statement of Activities reports both the gross and net cost of the Western Upper Peninsula District Health Department's functions. The functions are supported by general revenues, (intergovernmental transfers, grants, user fees) and fees for services. The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net costs by function are normally covered by general revenue.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The Government-Wide Statements focus is more on the sustainability of the Western Upper Peninsula District Health Department as an entity and the change in net assets resulting from the current year's activities.

BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS:

Governmental Funds:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position (sources, uses, and balances of financial resources) rather than upon net income.

The **General Fund** is the primary operating fund. It accounts for all financial resources of the Western Upper Peninsula District Health Department.

The emphasis in fund financial statements is on the major funds in the governmental activities. Non-major funds by category are summarized into a single column. GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds.

(3) BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

Full Accrual

Governmental type activities in the government-wide financial statements are presented on the full accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified basis of accounting, revenues are recorded when they are both measurable and available. "Available" means collectible within the current period or within 60 days of the end of the current fiscal period. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. However, debt service expenditures, compensated absences, and claims and judgments are recorded only when payment is due.

(4) FINANCIAL STATEMENT AMOUNTS

Budgets and Budgetary Accounting – The Western Upper Peninsula District Health Department follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Health Officer submits to the Western Upper Peninsula District Health Department's Board of Health proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

- b. Opportunities exist for public comment during the budget process since all action by the Board of Health occurs in open public hearings.
- c. Pursuant to statute, prior to September 30 of each year the budget for the ensuing year is legally enacted through adoption of the Annual Operating Budget.
- d. The general statute governing Western Upper Peninsula District Health Department budgetary activity is the State of Michigan Uniform Budgeting and Accounting Act. In addition to the provisions of the said Act and Board of Health policy, general statements concerning the Board's intent regarding the administration of each year's budget are set out in the Annual General Appropriations Act. The Western Upper Peninsula District Health Department's Board of Health, through policy action, specifically directs the Health Officer not to authorize or participate in any expenditure of funds except as authorized by the Annual General Appropriations Act. The Board recognized that, in addition to possible Board sanctions for willful disregard of this policy, State statutes provide for civil liability for violations of the Annual General Appropriations Act.
- e. The Western Upper Peninsula District Health Department adopts its Annual Budget on a departmental basis. At each level of detail, governmental operations are summarized into expenditure account groups. Funding sources are also identified and adopted at each level of detail. Budgetary control exists at the most detailed level adopted by the Board of Health, i.e., department for analytical purposes. A detailed line item breakdown is prepared for each program. Accounting, i.e., classification control, resides at the line item detail level.

Cash Equivalents and Investments – For the purposes of balance sheet classification and the statement of cash flows, cash and equivalents consist of demand deposits, cash in savings, money market accounts and certificates of deposit. Investments are carried at fair value.

Prepaid Items – Payments made to vendors for insurance and services that will benefit future periods are recorded as prepaid items. All other payments made to vendors for services that will benefit future periods are recorded as expenditures.

Capital Assets – capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Western Upper Peninsula District Health Department as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their fair value on the date donated. Depreciation on all exhaustible capital assets is charged as an expense against their operations in government-wide statements. Accumulated depreciation is reported on government-wide statement of net assets. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Land improvements	20 years
Building, structures and improvements	40 years
Equipment	2-20 years
Vehicles	5 years

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Long-Term Liabilities – In the government-wide financial statements fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting of certain assets, liabilities, revenues, and expenditures. Actual results may differ from estimated amounts.

Compensated Absences – The Western Upper Peninsula District Health Department accrues accumulated unpaid vacation and sick leave days and associated employee-related costs when earned (or estimated to be earned) by the employee. The noncurrent portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

Deferred Revenues – Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

- (1) The Western Upper Peninsula District Health Department has deferred revenue of \$194,108. This amount represents \$194,108 from unearned Medicare revenue.

NOTE B – CASH DEPOSITS AND INVESTMENTS:

The cash and investments are classified into the following categories:

Cash – Held with Health Department – Bank Deposits	\$20,725
Cash – Held with County Treasurer – Bank Deposits	523,111
Total Cash	<u>\$543,836</u>

Michigan Compiled Laws, Section 129.91, authorizes the Health Department to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States, United States governmental or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivision which are treated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Health Department has adopted the County's investment policy, which is in accordance with the provisions of Public Act 20 of 1943.

Interest Rate Risk

The Health Department does not have a formal investment policy that limits investment maturities as a means of managing its exposure to Fair Value losses arising from increasing interest rates.

NOTE B – CASH DEPOSITS AND INVESTMENTS (Continued):

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Health Department has no investment policy that would further limit its investment choices.

Custodial Investment Credit Risk

Investment custodial credit risk is the risk that in the event of the failure of the counterparty, the Health Department will not be able to recover the value of its investments or securities that are in the possession of an outside party. The Health Department invests with the County of Houghton and would receive its proportional share of holdings.

Custodial Deposit Credit Risk

Custodial deposit credit risk is the risk that in the event of a bank failure, the Health Department deposits may not be returned. State law does not require and the Health Department does not have a policy for deposit custodial credit risk. The carrying amounts of the Health Department's deposits with financial institutions were \$20,725 and the bank balance was \$16,378. The bank balance is categorized as follows:

Amount insured by FDIC	\$16,378
Amount uninsured and uncollateralized	-
	<u>\$16,378</u>

The \$523,111 other cash balance is pooled with the County of Houghton funds and would receive a proportionate share of insurance.

NOTE C – DESIGNATED CASH:

The Western Upper Peninsula District Health Department has designated cash in the amount of \$50,000 for use in major renovation projects or future land and/or building acquisitions; \$50,000 for use in major Management Information System upgrade projects; and \$364,919 for accrued compensated absences and \$19,510 is designated in cash for their section 125 plan for a total of \$484,429.

NOTE D – ACCOUNTS RECEIVABLE – HOME HEALTH:

The balance of \$980,445 for Home Health accounts receivable includes an adjustment related to accounts receivable written off of \$24,371 and an allowance amount of \$33,300.

NOTE E – COMPENSATED ABSENCES:

The Western Upper Peninsula District Health Department accrues a liability for earned sick leave based on the vesting method. The liability is accrued as the benefits are earned if it is probable that the Health Department will compensate the employees conditioned upon death or retirement. Upon death or retirement, the employee or their estate shall be paid for sick leave accumulated at their current rate of pay under the terms established by the respective labor agreement or administrative policy.

Employees earn annual leave or earned time off at varying rates based upon years of service. Upon retirement, death or termination of employment, employees or their estates are paid for outstanding annual leave or earned time off at their current rate of pay according to the terms established by the respective labor agreement or administrative policy.

NOTE E – COMPENSATED ABSENCES (Continued):

The accrued compensated absences balance of \$38,812 as reported in the general operating fund and \$109,476 in the adjustment column represents the current portion for a total of \$148,288 and the balance of \$255,443 as reported under the long-term caption in the Statement of Net Assets represents the long-term portion of the liability.

NOTE F – LOAN PAYABLES:

Changes in long-term debt for the year ended September 30, 2006 are summarized as follows:

	Balance October 1, 2005	Additions	Deletions	Balance Sept. 30, 2006	Due Within One Year
Installment Purchase Agreement – Hancock Facility	\$119,446	\$ -	\$119,446	\$-	\$-
Installment Purchase Agreement – L'Anse Facility	201,545	-	17,392	\$184,153	\$18,372
Compensated Absences	318,832	46,087	-	364,919	-
	<u>\$639,823</u>	<u>\$46,087</u>	<u>\$136,838</u>	<u>\$549,072</u>	<u>\$18,372</u>

On December 26, 1991, the Health Department entered into an installment purchase agreement payable over 178 months for the acquisition of the Hancock facility. The agreement, effective December 1, 1991, requires monthly payments of \$11,354, which includes interest at a rate of 9%.

On September 29, 2000, the Health Department entered into a 15 year land contract with BHK Child Development Board and the Copper Country Intermediate School District for the shared use of a building in L'Anse. The agreement, effective January 1, 2000, requires monthly payments of \$2,337, which includes interest at a rate of 5.5%.

	Principle	Interest	Total
2007	\$18,372	\$9,670	\$28,042
2008	19,409	8,633	28,042
2009	20,504	7,538	28,042
2010	21,660	6,382	28,042
2011	22,882	5,160	28,042
2012-2015	81,326	7,474	88,800
TOTAL	<u>\$184,153</u>	<u>\$44,857</u>	<u>\$229,010</u>

NOTE G – RESERVED FUND BALANCE:

The Capital Improvements balance of \$50,000 is for future renovation of existing buildings or purchase of land and/or buildings.

The Management Information System Improvements balance of \$50,000 is for future renovation of the Management Information System.

The Employee benefits balance of \$364,919 is for future compensated absence payoffs.

NOTE H – NET HOME HEALTH SERVICE REVENUE:

Net home health service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors Blue Cross/Blue Shield, Medicaid and Medicare. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. The agency reports such activity through the submission of its annual cost reports which are subject to audit by the Medicare fiscal intermediary.

NOTE I – DEFINED BENEFIT PENSION PLAN:

Plan Description - The Western Upper Peninsula District Health Department participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Western Upper Peninsula District Health Department. The System provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Suite 800, Southfield, MI 48076-3723.

Funding Policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the Western Upper Peninsula District Health Department's competitive bargaining units, and requires a contribution from the employees of 0% of gross wages.

Annual Pension Cost – For the year ended September 30, 2006, the Health Department's annual pension cost of \$251,616 for the plan was less than the Western Upper Peninsula District Health Department's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2004, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 investment rate of return, and (b) projected salary increases of 4.5 percent per year and (c) a percentage based on an age-related scale to reflect merit, longevity and promotional salary increases. Both (a) and (b) include an inflation component of 4.5%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Three Year Trend Information from Actuarial Valuation
Fiscal Year Ended December 31

	<u>2003</u>	<u>2004</u>	<u>2005</u>
Actuarial Value of Assets	\$6,014,110	\$6,365,075	\$6,759,862
Actuarial Accrued Liability (Entry Age)	6,930,189	6,970,652	8,058,572
Unfunded AAL	916,079	605,577	1,298,710
Funded Ratio	87%	91%	84%
Covered Payroll	3,370,346	3,054,386	3,248,327
UAAL as a Percentage of Covered Payroll	27%	20%	40%

	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$255,378	100%	-
2004	261,863	100%	-
2005	308,514	100%	-

NOTE J – CONTINGENT LIABILITIES:

Risk Management – The Western Upper Peninsula District Health Department is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The Western Upper Peninsula District Health Department was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Western Upper Peninsula District Health Department joined together with other governments as part of a public entity risk pool currently operating as a common risk management and insurance program. The Western Upper Peninsula District Health Department pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$75,000 for each insured event.

NOTE J – CONTINGENT LIABILITIES (Continued):

The Western Upper Peninsula District Health Department continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Western Upper Peninsula District Health Department is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE K – DEFERRED COMPENSATION PLAN:

The Western Upper Peninsula District Health Department offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The Plans are available to all employees who work at least 20 hours per week. The Plan is not available to on-call employees. The plans permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable future.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the Western Upper Peninsula District Health Department's general creditors. Therefore, the plan is no longer presented in these statements.

The Plan's participants have the right to designate how the funds will be invested. Accordingly, the Western Upper Peninsula District Health Department has no liability for losses under the Plan. The Plan's assets are held in trust for the exclusive benefit of the Plan's participants and their beneficiaries. The Western Upper Peninsula District Health Department's plan is administered by Nationwide Retirement Solutions, and as Plan administrators, agree to hold harmless and indemnify the Board, its appointed and elected officers and participating employees from any loss resulting from Nationwide Retirement Solutions or their agents' failure to perform their duties and services pursuant to the Nationwide Retirement Solutions program.

NOTE L – CAPITAL ASSETS:

Capital asset activity of the Western Upper Peninsula District Health Department for the current year was as follows:

	Balance October 1, 2005	Additions	Disposals	Balance Sept. 30, 2006
Land	\$90,000	\$-	\$-	\$90,000
Sub-Total Land	90,000	-	-	90,000
Land Improvements	17,595	-	-	17,595
Buildings	1,443,780	-	-	1,443,780
Equipment	160,062	-	-	160,062
Sub-Total Capital Assets	1,621,437	-	-	1,621,437
Less Accumulated Depreciation:				
Land Improvements	12,028	2,510	-	14,538
Buildings	707,249	59,518	-	766,767
Equipment	123,956	6,754	-	130,710
Sub-Total Accumulated Depreciation	843,233	68,782	-	912,015
Total	\$868,204	(\$68,782)	\$-	\$799,422
Depreciation Expense:				
Health & Welfare:				
Public Health			\$27,513	
Environmental Health			6,878	
Superior Home Nursing & Hospice			34,391	
Total			\$68,782	

NOTE M – SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The federal expenditures of the Western Upper Peninsula District Health Department are included with the schedule of expenditures of federal awards of the County of Houghton, Michigan.

Required Supplementary Information

Western Upper Peninsula District Health Department

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual

For the year ended September 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES:				
Fees and collections				
Home health services	\$ 3,465,000	\$ 3,339,319	\$ 3,528,665	\$ 189,346
Contractual allowance	-	-	(165,865)	(165,865)
Other fees, services and refunds	810,900	958,359	936,229	(22,130)
Projects and grants	930,870	1,323,636	1,292,821	(30,815)
State local public health operations	413,039	393,412	393,411	(1)
TOTAL REVENUES	5,619,809	6,014,726	5,985,261	(29,465)
EXPENDITURES:				
Health & Welfare				
Salaries and wages	3,619,355	3,557,043	3,553,141	3,902
Fringe benefits	1,241,490	1,286,395	1,275,786	10,609
Supplies	216,425	548,641	500,813	47,828
Contractual Services	203,850	278,243	289,865	(11,622)
Travel Related	292,955	288,944	292,972	(4,028)
Communications and utilities	80,040	91,507	90,925	582
Repairs and maintenance	62,075	61,765	61,472	293
Space rentals	43,135	50,277	50,194	83
Equipment lease	6,912	6,904	6,562	342
Postage and printing	36,180	36,800	38,583	(1,783)
Insurance and bonds	55,966	58,505	58,460	45
Membership and subscriptions	17,275	18,345	18,469	(124)
Advertising	33,250	33,968	41,988	(8,020)
Capital outlay	14,830	19,765	21,645	(1,880)
Miscellaneous	33,854	51,289	42,598	8,691
Debt service	152,931	152,931	152,931	-
TOTAL EXPENDITURES	6,110,523	6,541,322	6,496,404	44,918
EXCESS REVENUES OVER (UNDER) EXPENDITURES	(490,714)	(526,596)	(511,143)	15,453
OTHER FINANCING SOURCES (USES):				
Local Units:				
Baraga county	50,742	50,742	50,742	-
Keweenaw county	21,575	21,575	21,575	-
Ontonagon county	51,941	51,941	51,941	-
Gogebic county	101,084	101,084	101,084	-
Operating Transfers from Primary Government:				
Houghton County - appropriations	174,201	174,201	174,201	-
Houghton County - cigarette tax	32,000	31,880	31,880	-
TOTAL OTHER FINANCING SOURCES AND (USES)	431,543	431,423	431,423	-
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(59,171)	(95,173)	(79,720)	15,453
FUND BALANCE - Beginning of Year	1,264,336	1,264,336	1,264,336	-
FUND BALANCE - End of Year	\$ 1,205,165	\$ 1,169,163	\$ 1,184,616	\$ 15,453

Other Supplementary Information

Western Upper Peninsula District Health Department

Schedule of Expenditures by Reporting Unit

For the Year ended September 30, 2006

	Budget	Actual	Variance Favorable (Unfavorable)
Agency Support	\$ 60,004	\$ 66,255	\$ (6,251)
General Public Health Nursing	900,804	837,633	63,171
BCCCP	57,089	57,264	(175)
Bio-terrorism Emergency Preparedness	223,597	231,897	(8,300)
CSHCS	67,327	41,977	25,350
Dental	94,396	94,617	(221)
Electronic Recycling	273	29,000	(28,727)
Environmental Health	726,156	724,898	1,258
Family Planning	208,551	215,834	(7,283)
Hearing & Vision	23,768	27,177	(3,409)
ISS	-	61,319	(61,319)
Local Tobacco Reduction	53,668	54,421	(753)
Medicaid Outreach	-	24,171	(24,171)
MSS	203,627	142,470	61,157
Pandemic Influenza	-	707	(707)
Pie Grant	2,247	2,086	161
RSVP Project	97,255	76,419	20,836
Senior Screening	20,217	24,091	(3,874)
Superior Home Nursing	3,497,370	3,476,743	20,627
Substance Abuse	74,713	77,789	(3,076)
WIC	230,260	229,636	624
TOTALS	<u>\$ 6,541,322</u>	<u>\$ 6,496,404</u>	<u>\$ 44,918</u>

Western Upper Peninsula District Health Department

Schedule of Departmental Expenditures

For the Year ended September 30, 2006

	Total	Agency Support	General Public Health Nursing	BCCCP	Bio-terrorism Emergency Preparedness	CSHCS	Dental	Electronic Recycling
Salaries and wages	\$ 3,553,141	\$ 529,470	\$ 264,574	\$ 28,059	\$ 115,303	\$ 19,260	\$ 35,141	\$ 5,146
Fringe benefits	1,275,786	215,366	101,473	10,583	40,976	11,103	13,034	1,141
Supplies	500,813	2,596	320,192	2,104	14,791	270	2,861	612
Contractual Services	289,865	18,011	15,195	819	774	-	28,112	18,666
Travel Related	292,972	14,321	8,071	963	2,989	157	682	569
Communications and utilities	90,925	13,175	9,831	958	12,028	933	310	-
Repairs and maintenance	61,472	23,093	7,449	792	639	689	323	-
Space rentals	50,194	2,855	5,607	565	2,379	665	-	250
Equipment lease	6,562	6,562	-	-	-	-	-	-
Postage and printing	38,583	10,071	1,829	844	116	297	2,104	497
Insurance and bonds	58,460	57,592	-	-	-	-	-	-
Membership and subscriptions	18,469	9,679	538	-	50	-	-	-
Advertising	41,988	2,260	1,502	25	-	-	293	731
Capital outlay	174,576	35,179	19,888	2,949	7,343	1,898	1,119	-
Miscellaneous	42,598	27,864	655	70	-	-	-	-
Overhead Allocation	-	(901,839)	80,829	8,533	34,509	6,705	10,638	1,388
TOTALS	\$ 6,496,404	\$ 66,255	\$ 837,633	\$ 57,264	\$ 231,897	\$ 41,977	\$ 94,617	\$ 29,000

Western Upper Peninsula District Health Department

Schedule of Departmental Expenditures

For the Year ended September 30, 2006

	Environmental Health	Family Planning	Hearing & Vision	ISS	Local Tobacco Reduction	Medicaid Outreach	MSS
Salaries and wages	\$ 368,875	\$ 67,983	\$ 11,490	\$ 31,537	\$ 30,832	\$ 12,464	\$ 72,811
Fringe benefits	127,806	24,614	1,892	16,531	7,732	7,320	27,130
Supplies	5,978	42,991	489	325	427	16	1,061
Contractual Services	5,249	38,089	5,799	-	-	-	960
Travel Related	40,247	1,655	536	2,250	2,221	2	4,110
Communications and utilities	7,564	3,485	1,646	-	416	-	2,962
Repairs and maintenance	4,659	2,330	1,097	-	445	-	1,745
Space rentals	8,107	4,482	-	-	-	-	3,936
Equipment lease	-	-	-	-	-	-	-
Postage and printing	7,477	1,161	397	62	72	-	118
Insurance and bonds	-	-	-	-	-	-	-
Membership and subscriptions	415	449	-	-	-	-	163
Advertising	-	84	-	-	1,934	-	-
Capital outlay	29,589	7,947	876	-	1,542	-	5,405
Miscellaneous	9,256	117	-	-	284	-	-
Overhead Allocation	109,676	20,447	2,955	10,614	8,516	4,369	22,069
TOTALS	\$ 724,898	\$ 215,834	\$ 27,177	\$ 61,319	\$ 54,421	\$ 24,171	\$ 142,470

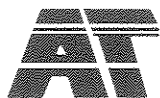
Western Upper Peninsula District Health Department

Schedule of Departmental Expenditures

For the Year ended September 30, 2006

	Pandemic Influenza	PIE Grant	RSVP Project	Senior Screening	Superior Home Nursing	Substance Abuse	WIC
Salaries and wages	\$ 392	\$ 1,402	\$ 34,389	\$ 11,504	\$ 1,757,512	\$ 40,478	\$ 114,519
Fringe benefits	139	277	11,865	2,322	593,973	12,338	48,171
Supplies	-	15	8,570	6,634	83,459	308	7,114
Contractual Services	-	-	-	-	158,191	-	-
Travel Related	59	11	6,720	236	198,251	7,355	1,567
Communications and utilities	-	-	55	-	32,238	1,217	4,107
Repairs and maintenance	-	-	-	-	13,364	815	4,032
Space rentals	-	-	-	-	15,490	1,919	3,939
Equipment lease	-	-	-	-	-	-	-
Postage and printing	-	10	1,326	342	9,725	113	2,022
Insurance and bonds	-	-	868	-	-	-	-
Membership and subscriptions	-	-	40	-	7,135	-	-
Advertising	-	-	233	-	34,926	-	-
Capital outlay	-	-	1,402	-	49,657	1,542	8,240
Miscellaneous	-	-	737	-	3,574	41	-
Overhead Allocation	117	371	10,214	3,053	519,248	11,663	35,925
TOTALS	\$ 707	\$ 2,086	\$ 76,419	\$ 24,091	\$ 3,476,743	\$ 77,789	\$ 229,636

Compliance Supplements



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Health
Western Upper Peninsula District Health Department
540 Depot Street
Hancock, Michigan 49930

We have audited the accompanying financial statements of the governmental activities and major fund of the Western Upper Peninsula District Health Department, a component unit of the County of Houghton, Michigan, as of and for the year ended September 30, 2006, which collectively comprise the Western Upper Peninsula District Health Department's basic financial statements and have issued our report thereon dated January 19, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Western Upper Peninsula District Health Department's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk of material misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Western Upper Peninsula District Health Department's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of board, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

January 19, 2007



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE

WISCONSIN
GREEN BAY
MILWAUKEE

January 19, 2007

Western Upper Peninsula District Health Department
540 Depot Street
Hancock, Michigan 49930

We have audited the financial statements of the Western Upper Peninsula District Health Department, a component unit of the County of Houghton; Michigan for the year ended September 30, 2006, and have issued our report thereon dated January 19, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Western Upper Peninsula District Health Department. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatements, we performed test of the Western Upper Peninsula District Health Department's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Western Upper Peninsula District Health Department are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Western Upper Peninsula District Health Department during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Western Upper Peninsula District Health Department's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Western Upper Peninsula District Health Department, either individually or in the aggregate, indicate matters that could have a significant effect on the Western Upper Peninsula District Health Department's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Western Upper Peninsula District Health Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Western Upper Peninsula District Health Department Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Anderson, Tackman & Company, PLLC

Certified Public Accountants